

Exide Industries

BLOOMBERG: EXID IN EQUITY | BSE: 500086 | NSE: EXIDEIND

Operating performance in line; maintain SELL

EXID's Q3FY12 results came in ahead of estimates on above-expected revenue growth. The operating performance, however, was in-line with a QoQ improvement in margins. In our view, the near-term overhang of increasing competitive intensity still looms over the sector, and confidence on sustainable margins would be a prerequisite for re-rating. While we are building in a further ~200bps expansion in margins, this could be a function of pricing action by competitors and hence sustainability would be the key issue; also, the management believes that lead prices may have bottomed out. We thus maintain a SELL on EXID with a revised TP of Rs 125 (Rs 115 earlier), rolling it forward to Mar'13 (based on 13x FY14 earnings).

- ❖ Net revenues grew 19% YoY and 6.3% QoQ to Rs 12.5bn, beating our estimates by 11%. Revenue growth, sequentially, was aided by strong two-wheeler and industrial segment (UPS/inverter) sales. For the automotive replacement demand too, the management sees MoM improvement in volumes.
- ❖ Operating performance improved QoQ, in-line with our estimates. EBITDA margins expanded 520bps QoQ to 14.1%—marginally higher than estimates, after plummeting to 8.9% last quarter on higher cost inventory. RM costs came off 440bps QoQ as the company liquidated its high-cost inventory (as guided for in the previous quarter) while operating leverage from higher revenues led to a 130bps QoQ decline in other expenses.
- ❖ Smelter sourcing from subsidiaries currently stands at 52–53%. The technical assistance agreement which the company recently inked would help it further expand its smelter capacities.
- ❖ Adjusted net profit at Rs 1.14bn came in ahead of estimates, led by the revenue beat.

Financial highlights

Year End: 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Revenue (Rs mn)	37,943	45,565	49,065	57,553	67,510
EBITDA (Rs mn)	8,897	8,817	7,098	9,211	10,796
Adj. PAT (Rs mn)	5,371	6,017	4,784	6,375	7,532
Adj. EPS (Rs)	6.3	7.1	5.6	7.5	8.9
Growth (%)	73.8	12.0	(20.5)	33.2	18.2
DPS (Rs)	1.0	1.2	1.5	1.5	2.0
ROIC (%)	61.0	48.8	31.2	38.1	41.9
ROE (%)	31.0	24.3	16.4	19.2	19.6
P/E (x)*	18.7	16.7	21.0	15.7	13.3
EV/EBITDA (x)*	11.3	11.4	14.2	10.9	9.3
P/BV (x)*	4.5	3.7	3.3	2.8	2.4

* Adjusted for value of subsidiaries

Kaushal Maroo

(91-22) 6766 3457

kaushal.maroo@religare.com

Keyur Vora, CFA

(91-22) 6766 3456

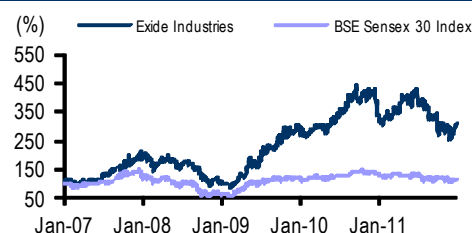
vora.keyur@religare.com

CMP	Rs 128
Target NEW	Rs 125
Previous	Rs 115
Rating	SELL
Previous	SELL
% Upside / (Downside)	(2)%
+ Dividend yield	1%
Total return	(1)%

Company data

Market cap (Rs mn / US\$ mn)	108,843 / 2,162
Outstanding equity shares (mn)	850.0
BVPS (Rs)	36
Free float (%)	54.0
52-week high / low (Rs)	173 / 102
2-month avg. daily vol (mn)/ value (US\$ mn)	1 / 3
ADR/GDR premium (%)	n.a.

Stock performance



Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	12,502	11,237	11.3
EBITDA	1,762	1,517	16.1
Adj net income	1,140	964	18.2
FDEPS (Rs)	1.3	1.1	18.2

Source: RCML Research

Fig 2 - Quarterly performance

(Rs mn)	Q3FY12	Q3FY11	% Chg YoY	Q2FY12	% Chg QoQ
Revenue	12,502	10,502	19.0	11,761	6.3
Expenditure	10,740	8,900	20.7	10,709	0.3
Operating profit	1,762	1,601	10.0	1,052	67.5
EBITDA margin (%)	14.1%	15.2%	(110 bps)	8.9%	520 bps
Other income	100	331	(70.0)	79	26.1
Interest	12	19	(36.2)	16	(25.5)
Depreciation	250	212	18.1	247	1.5
PBT	1,461	1,702	(14.2)	719	103.1
Tax	418	458	(8.7)	208	101.2
PAT	1,140	1,244	(8.4)	616	85.2
FDEPS (Rs)	1.34	1.46	(8.4)	0.72	85.2

Source: Company, RCML Research

Revenues were ahead of our estimates

Strong revenue growth QoQ helped by robust automotive segment sales

Lower lead prices and a better product mix aid QoQ margin recovery

Management call highlights

Fig 3 - Sales volume

units	Q3FY12	Growth % YoY	Growth % QoQ
Automotive OEM	915,179	(8.1)	(5.1)
Automotive Replacement	1,134,821	(4.2)	7.6
Two wheeler OEM	2,572,464	27.8	(1.9)
Two wheeler Replacement	977,536	11.1	16.5
Industrial (million ampere hour)	403	12.9	3.1

Source: Company, RCML Research

Fig 4 - Lead cost for Exide

	Q3FY12	Growth % YoY	Growth % QoQ
Lead price per kg	131.5	15.1	(1.7)

Source: Company, RCML Research

Fig 5 - Segment margins

%	Q3FY12	Q2FY12	Change QoQ (bps)
Automotive	14.8	9.2	560 bps
Industrial	11.1	9.2	190 bps

Source: Company, RCML Research

At current levels, lead cost for the company stands at ~ Rs 125/kg

Having closed the unreasonable price gap (15-17%) with competition that prevailed earlier, EXID currently isn't contemplating any pricing action

In the Automotive Aftermarket, the management believes it can increase market share to 60% from 52-53% currently

Barring any negative macro news flow, the management believes lead price is less likely to fall any further

- ❖ Smelter sourcing from subsidiaries currently stands at 52–53%. The technical assistance agreement which the company recently inked would help it further expand smelter capacities.
- ❖ While EXID has indicated some capex towards expanding its two-wheeler battery capacities in FY13, it believes the automotive segment (SLI) has enough capacity to satisfy potential growth.
- ❖ The management has guided to FY12 Automotive segment (SLI) volumes of 9mn units (YTD actual volumes: ~ 6mn units).

Outlook

- ❖ **Volumes:** On the Automotive side, the management sees MoM improvement in replacement sales, while on the OEM side it believes that the likelihood of achieving a growth rate in excess of 10% is low. Consequently, the mix (OEM–replacement) should materially improve in favour of the replacement segment over the coming quarters. On the Industrial side too, there is a strong uptick in demand led by inverter/UPS segments. With its tie-ups for inverter manufacturing, EXID hopes to sell 30k–40k inverters p.m. beginning Q1FY13—in the process aiding inverter battery sales.
- ❖ **Margins:** The management expects a sequential uptick in margins aided by: (a) lower lead prices, (b) higher replacement sales (relative to OEM) in the Automotive segment, and (c) a better product mix in the Industrial segment (higher inverter/UPS and lower telecom battery sales). Longer term, it believes margins would sustain at 18–19%.
- ❖ **Competitive landscape:** The management highlighted a slight increase in competitive intensity in the high-margin automotive replacement market. However, these are largely fringe local players with none having a pan-India/major regional presence.

Profit and Loss statement

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Total revenue	37,943	45,565	49,065	57,553	67,510
EBITDA	8,897	8,817	7,098	9,211	10,796
EBIT	8,091	7,983	6,112	8,138	9,652
Interest	(106)	(60)	(21)	(21)	(21)
Other income/(Expense)	121	835	601	799	904
Exceptional items	0	678	0	0	0
EBT	8,106	9,436	6,691	8,916	10,534
Income taxes	(2,735)	(2,740)	(1,907)	(2,541)	(3,002)
Extraordinary items	0	0	0	0	0
Min int./Inc. from associates	0	0	0	0	0
Reported net profit	5,371	6,696	4,784	6,375	7,532
Adjustments	0	(678)	0	0	0
Adjusted net profit	5,371	6,017	4,784	6,375	7,532

Balance sheet

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Accounts payable	3,912	5,276	6,721	7,096	7,028
Other current liabilities	1,031	1,327	624	937	1,405
Provisions	985	1,362	2,337	2,499	3,092
Debt funds	900	22	301	301	301
Other liabilities	0	0	0	0	0
Equity capital	850	850	850	850	850
Reserves & surplus	21,348	26,575	29,955	34,857	40,425
Shareholder's funds	22,198	27,425	30,805	35,707	41,275
Total liabilities	29,026	35,410	40,788	46,539	53,102
Cash and cash eq	29	148	1,795	1,182	3,878
Accounts receivable	2,546	3,665	4,033	4,415	4,624
Inventories	6,068	8,590	9,691	10,641	11,333
Other current assets	476	885	932	1,036	1,148
Investments	13,354	13,780	14,780	18,780	20,780
Net fixed assets	6,767	8,358	9,572	10,500	11,356
CWIP	378	660	660	660	660
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(590)	(675)	(675)	(675)	(675)
Other assets	0	0	0	0	0
Total assets	29,026	35,410	40,788	46,538	53,102

Cash flow statement

Y/E 31 Mar (Rs mn)	FY10A	FY11A	FY12E	FY13E	FY14E
Net income + Depreciation	6,177	7,530	5,770	7,447	8,677
Interest expenses	106	60	21	21	21
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(760)	(2,028)	(688)	(656)	(509)
Other operating cash flow	(285)	(1,585)	(565)	(759)	(860)
Cash flow from operations	5,238	3,978	4,538	6,053	7,329
Capital expenditure	(1,076)	(2,752)	(2,200)	(2,000)	(2,000)
Change in investments	(6,640)	169	(1,000)	(4,000)	(2,000)
Other investing cash flow	24	739	565	759	860
Cash flow from investing	(7,692)	(1,845)	(2,635)	(5,241)	(3,140)
Issue of equity	5,299	0	0	0	0
Issue/repay debt	(2,272)	(672)	279	0	0
Interest expenses	(134)	(59)	(21)	(21)	(21)
Dividends paid	(748)	(1,282)	(514)	(1,404)	(1,473)
Other financing cash flow	0	(2)	0	0	0
Cash flow from financing	2,145	(2,014)	(255)	(1,425)	(1,494)
Change in cash & cash eq	(308)	119	1,647	(613)	2,696
Closing cash & cash eq	29	148	1,795	1,182	3,878

Per share data

Y/E 31 Mar (Rs)	FY10A	FY11A	FY12E	FY13E	FY14E
Reported EPS	6.3	7.9	5.6	7.5	8.9
Adjusted EPS	6.3	7.1	5.6	7.5	8.9
DPS	1.0	1.2	1.5	1.5	2.0
BVPS	26.1	32.3	36.2	42.0	48.6

Valuation ratios (adjusted for value of subsidiaries)

Y/E 31 Mar (x)	FY10A	FY11A	FY12E	FY13E	FY14E
EV/Sales	2.6	2.2	2.0	1.7	1.5
EV/EBITDA	11.3	11.4	14.2	10.9	9.3
P/E	18.7	16.7	21.0	15.7	13.3
P/BV	4.5	3.7	3.3	2.8	2.4

Financial ratios

Y/E 31 Mar	FY10A	FY11A	FY12E	FY13E	FY14E
Profitability & Return ratios (%)					
EBITDA margin	23.4	19.4	14.5	16.0	16.0
EBIT margin	21.3	17.5	12.5	14.1	14.3
Net profit margin	14.2	13.2	9.8	11.1	11.2
ROE	31.0	24.3	16.4	19.2	19.6
ROCE	27.7	22.4	14.9	17.3	17.8
Working Capital & Liquidity ratios					
Receivables (days)	24	29	30	28	25
Inventory (days)	102	95	104	100	92
Payables (days)	49	46	52	52	45
Current ratio (x)	1.5	1.7	1.7	1.6	1.8
Quick ratio (x)	0.5	0.6	0.7	0.6	0.8
Turnover & Leverage ratios (x)					
Gross asset turnover	2.8	2.9	2.8	2.9	3.1
Total asset turnover	1.3	1.3	1.2	1.2	1.3
Interest coverage ratio	-	-	-	-	-
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Quarterly trend

Particulars	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Revenue (Rs mn)	10,502	12,261	12,444	11,761	12,502
YoY growth (%)	15.0	19.0	8.0	4.3	19.0
QoQ growth (%)	(6.8)	16.7	1.5	(5.5)	6.3
EBITDA (Rs mn)	1,601	2,119	2,223	1,052	1,762
EBITDA margin (%)	15.2	17.3	17.9	8.9	14.1
Adj PAT (Rs mn)	1,244	1,637	1,632	660	1,140
YoY growth (%)	(4.5)	21.7	(1.3)	(60.2)	(8.4)
QoQ growth (%)	(25.0)	31.5	(0.3)	(59.5)	85.2

DuPont analysis

(%)	FY10A	FY11A	FY12E	FY13E	FY14E
Tax burden (Net income/PBT)	66.3	63.8	71.5	71.5	71.5
Interest burden (PBT/EBIT)	100.2	118.2	109.5	109.6	109.1
EBIT margin (EBIT/Revenue)	21.3	17.5	12.5	14.1	14.3
Asset turnover (Revenue/Avg TA)	130.7	128.7	120.3	123.7	127.1
Leverage (Avg TA/Avg equity)	130.8	129.1	132.4	130.3	128.7
Return on equity	31.0	24.3	16.4	19.2	19.6

Company profile

The company is the leading producer of storage batteries in India. It manufactures a wide range of storage batteries ranging from 2.5 Ah to 20,400 Ah capacities, covering a broad spectrum of applications. Through its subsidiaries, the company operates two lead smelters that recycle lead supplying a significant amount of the company's lead requirements. Exide also owns 50% of ING Vysya Life Insurance.

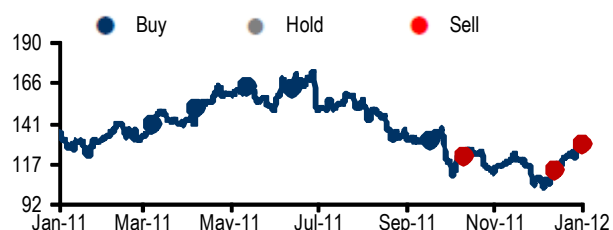
Shareholding pattern

(%)	Jun-2011	Sep-2011	Dec-2011
Promoters	46.0	46.0	46.0
FIs	16.1	17.1	18.8
Banks and FIs	15.7	15.0	13.5
Public	22.2	22.0	21.7

Recommendation history

Date	Event	Reco price	Tgt price	Reco
27-Sep-10	Sector Report	167	190	Buy
29-Mar-11	Sector Update	140	170	Buy
28-Apr-11	Results Review	150	170	Buy
3-Jun-11	Sector Update	164	170	Buy
5-Jul-11	Sector Update	163	170	Buy
9-Oct-11	Sector Update	131	170	Buy
1-Nov-11	Results Review	122	115	Sell
4-Jan-12	Sector Update	113	115	Sell
23-Jan-12	Results Review	128	125	Sell

Stock performance



Important Global Disclosures

This report was prepared, approved, published and distributed solely by a Religare Capital Markets ("RCM") group company located outside of the United States (a "non-US Group Company"), which excludes Religare Capital Markets Inc. ("RCM Inc.") and Religare Capital Markets (USA) LLC ("RCM USA"). This report has not been reviewed or approved by RCM Inc. or RCM USA. This report may only be distributed in the U.S. to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through RCM Inc. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or FINRA or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Subject to any applicable laws and regulations at any given time, non-US Group Companies, their affiliates or companies or individuals connected with RCM (together, "Connected Companies") may make investment decisions that are inconsistent with the recommendations or views expressed in this report and may have long or short positions in, may from time to time purchase or sell (as principal or agent) or have a material interest in any of the securities mentioned or related securities or may have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. Any particular arrangements or relationships are disclosed below. As a result, recipients of this report should be aware that Connected Companies may have a conflict of interest that could affect the objectivity of this report.

See "Special Disclosures" for certain additional disclosure statements, if applicable.

This report is only for distribution to investment professionals and institutional investors.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Analysts and strategists are paid in part by reference to the profitability of RCM which includes investment banking revenues.

Stock Ratings are defined as follows

Recommendation Interpretation (Recommendation structure changed with effect from March 1, 2009)

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Stock Ratings Distribution

As of 1 January 2012, out of 326 rated stocks in the RCM coverage universe, 214 have BUY ratings, 61 are rated HOLD and 51 are rated SELL. During the previous quarter, Religare Capital Markets Plc in the UK has published 124 independent research notes, 52 of which contained research recommendations, none of which related to corporate broking clients of the firm. The 52 recommendations were broken down into 36 buys, 6 sells, and 10 hold recommendations.

Research Conflict Management Policy

RCM research has been published in accordance with our conflict management policy, which is available at <http://www.religarecm.com/>

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject RCM to any registration or licensing requirement within such jurisdiction(s). This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to RCM. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of RCM. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of RCM or its affiliates, unless specifically mentioned otherwise.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. RCM has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. RCM will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Information and opinions presented in this report were obtained or derived from sources that RCM believes to be reliable, but RCM makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. RCM accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to RCM. This report is not to be relied upon in substitution for the exercise of independent judgment. RCM may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected absolute return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by RCM and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

This report is distributed in India by Religare Capital Markets Limited, which is a registered intermediary regulated by the Securities and Exchange Board of India. Where this report is distributed by Religare Capital Markets PLC ("RCM PLC") or Religare Capital Markets (EMEA) Ltd, those entities are authorised and regulated by the Financial Services Authority in the United Kingdom. In Dubai, it is being distributed by Religare Capital Markets Plc (Dubai Branch) which is licensed and regulated by the Dubai Financial Services Authority. In Singapore, it is being distributed (i) by Religare Capital Markets (Singapore) Pte. Limited ("RCMS") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors", "accredited investors" or "expert investors", as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations (the "FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to RCMS when providing any financial advisory service to an accredited investor, expert investor or "overseas investor" (as defined in regulation 36 of the FAR). Persons in Singapore should contact RCMS in respect of any matters arising from, or in connection with this publication/communication. In Hong Kong, it is being distributed by Religare Capital Markets (Hong Kong) Limited ("RCM HK"), which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In Australia, it is being distributed by RCMHK or by RCM PLC, both of which are approved under ASIC Class Orders. In South Africa, this report is distributed through Religare Capital Markets (Pty) Ltd, which is a licensed financial services provider (FSP No. 31530). In Sri Lanka, it is being distributed by Bartleet Mallory Stockbrokers, which is licensed under Securities and Exchange Commission of Sri Lanka. If you wish to enter into a transaction please contact the RCM entity in your home jurisdiction unless governing law provides otherwise. In jurisdictions where RCM is not registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation which may vary from one jurisdiction to another and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Religare Capital Markets does and seeks to do business with companies covered in our research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of research produced by Religare Capital Markets. Investors should consider our research as only a single factor in making their investment decision.

Any reference to a third party research material or any other report contained in this report represents the respective research organization's estimates and views and does not represent the views of RCM and RCM, its officers, employees do not accept any liability or responsibility whatsoever with respect to its accuracy or correctness and RCM has included such reports or made reference to such reports in good faith. This report may provide the addresses of, or contain hyperlinks to websites. Except to the extent to which the report refers to material on RCM's own website, RCM takes no responsibility whatsoever for the contents therein. Such addresses or hyperlinks (including addresses or hyperlinks to RCM's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or RCM's website shall be at your own risk.

Special Disclosures (if applicable)

Not Applicable